

A REVIEW OF BOND FUNDS

Propositions 12 and 13 Status of Bond Projects and Expenditures As of June 30, 2001

Prepared By:
Office of State Audits and Evaluations
Department of Finance



DEPARTMENT OF
FINANCE

GRAY DAVIS, GOVERNOR

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September 12, 2002

Honorable Cruz M. Bustamante, Co-Chair
Commission on Building for the 21st Century
Office of the Governor
State Capitol, First Floor
Sacramento, CA 95814

Honorable Maria Contreras-Sweet, Co-Chair
Commission on Building for the 21st Century
Office of the Governor
State Capitol, First Floor
Sacramento, CA 95814

Dear Lieutenant Governor Bustamante and Ms. Contreras-Sweet:

Final Report—Review of Bond Funds

In accordance with the Governor's November 9, 1999 directive, we respectfully submit to the Commission on Building for the 21st Century, the report on our review of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, as of June 30, 2001. The review's purpose was to determine the project status of the bond funds, and to audit the expenditures of those funds. The enclosed final report includes a consolidated response prepared by the Resources Agency.

The Governor's directive also required the Department of Finance to audit the Library Bond Act of 2000 (Proposition 14) and Veterans Bond Act of 2000 (Proposition 16). These programs are still in the planning and development phase and have not expended any bond funds during fiscal years 2000-01 and 2001-02. Accordingly, audit work has not been performed on these funds and their information has been excluded from the current report. We plan to include these programs in future audits.

We appreciate the cooperation and assistance of all of the participating departments and agencies with our review. If you have any questions, please contact me, or Richard R. Sierra, Manager, at (916) 322-2985.

Sincerely,

Samuel E. Hull, Chief
Office of State Audits and Evaluations

Enclosure

cc: Agency Secretaries
Assistant Secretaries
Department Directors
Office of the Legislative Analyst
Bureau of State Audits
State Library, Governmental Publications Section

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PREFACE

The Department of Finance, Office of State Audits and Evaluations, performed this review at the Governor's direction. The review's purpose was to determine the project status of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, and to audit the expenditures of those funds, as of June 30, 2001. Specifically, our objectives were to:

- Obtain from departments and agencies administering Proposition 12 and 13 bond funds, information on the status of their bond projects, including projects approved, expenditures incurred, and remaining appropriation balances.
- Review the applicable internal control of departments and agencies administering bond funds, to determine areas of risk and to identify where the control and accountability for bond funds could be improved.
- Audit a sample of bond program expenditures/disbursements, as of June 30, 2001, for accuracy and fiscal compliance with statutory or contractual requirements. Expenditures include State operations, capital outlay, and local assistance.

We did not conduct a performance review to assess the effectiveness and efficiency of the bond programs' operations or program compliance. The scope of our review was limited to fiscal compliance.

This report is a public record. Requests for copies should be made to the Commission on Building for the 21st Century.

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EXECUTIVE SUMMARY

During our review of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, as of June 30, 2001, we determined that the bond funds were accurately accounted and reported in compliance with the bond acts, and in conformity with the accounting practices as prescribed by the State of California. We also determined that (with few exceptions) bond-acquired assets were adequately accounted, safeguarded, and reported in compliance with the bond acts and State fiscal requirements. The following is a summary of our findings:

Proposition 12

As of June 30, 2001:

- Program expenditures, encumbrances, and other commitments totaled \$267,317,681.
- \$659,376,615 of the original allocation remained unappropriated.
- \$998,105,704 of the 2000-01 appropriation remained unexpended, unencumbered, and uncommitted.
- There were 406 open projects.

Proposition 13

As of June 30, 2001:

- Program expenditures, encumbrances, and other commitments totaled \$384,054,585.
- \$1,182,778,000 of the original allocation remained unappropriated.
- \$403,167,415 of the 2000-01 appropriation remained unexpended, unencumbered, and uncommitted.
- There were 339 open projects.

Internal Control Issues

We found isolated control and accountability weaknesses related to project reporting, contract processing and monitoring, property accounting, expenditure accounting and reporting, accounts receivable, cash receipts, and separation of duties.

Background

In March 2000, California voters passed a \$2.1 billion parks bond (Proposition 12) and a \$1.97 billion water bond (Proposition 13), implementing legislation authorizing the sale of bonds to finance a variety of resource programs. Administered by a number of State agencies, these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, public parks and wild lands, wildlife habitats, and waterway-adjacent lands. Bond proceeds are expended directly by the administering State agencies on various capital outlay projects, and are also disbursed to federal, State, local, and non-profit entities in the form of grants, contracts, and loans.

Both bond programs provide for the issuance and sale of general obligation bonds of the State of California, and the establishment of special funds and accounts for depositing the funds and carrying out the purposes specified in the bond acts. Operating cash is provided by short-term loans from the State's Pooled Money Investment Account (PMIA). Loans are repaid upon sale of the bonds.

Program funds were appropriated beginning with fiscal year 2000-01. All projects are expected to be completed by 2009-10.

The details for each bond program are discussed below.

Proposition 12

Responding to the recreational and open-space needs of a growing population and expanding urban communities, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), renews State stewardship of natural resources by investing, through the issuance and sale of \$2.1 billion in general obligation bonds, in neighborhood and State parks, clean water protection, coastal beaches, and scenic areas. Implemented by Chapter 461, Statutes of 1999 (Assembly Bill 18, Villaraigosa and Keeley), as amended by Chapter 638, Statutes of 1999 (Senate Bill 1147, Leslie), the act finances a comprehensive program for the acquisition, development, improvement, rehabilitation, restoration, enhancement, and protection of park, recreational, cultural, historical, fish and wildlife, lake riparian, reservoir, and coastal resources. *[Source: Assembly Bill 18]*

To manage program implementation, Proposition 12 funding was allocated to 13 State agencies and departments for support, local assistance, and capital outlay. The capital outlay projects consist primarily of land acquisition and restoration for the State park system, coastal areas, and protection of fish and wildlife. A portion of the Proposition 12 funding is also allocated to local agencies for urban parks, recreational facilities, and cultural centers. The Proposition 12 funds allocated to each department are summarized on Schedule 1.

The act also created the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond fund, for purposes of depositing the proceeds from the sale of bonds, and for funding the purposes specified in the act. Annual appropriations are made from this fund.

The Resources Agency was assigned the overall lead responsibility for the Proposition 12 program, and the Department of Parks and Recreation was assigned the responsibility to track participating departments' cash needs, loans, and allocation balances. Departments are responsible for managing their individual projects and for maintaining project accounting records.

Proposition 13

The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13), provides funding to enhance water supply reliability, improve water quality and safety, improve flood protection, and increase the beneficial use of existing water supplies in California. The act also provides loan and grant funding for urban and agricultural water conservation, infrastructure rehabilitation, and groundwater recharge and storage projects or feasibility studies. To finance the act's programs, the State is authorized to sell \$1.97 billion in general obligation bonds. *[Source: Assembly Bill 1584]*

Implemented by Chapter 725, Statutes of 1999 (Assembly Bill 1584, Machado and Costa), and administered by 11 State agencies and departments, the act's funding comprises support, local assistance, and capital outlay. More than half of the funding is designated for grants and loans to local agencies and non-profit organizations.

The act also created the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond fund, for purposes of depositing the proceeds from the sale of bonds, and for funding the purposes specified in the act. This main fund serves as a clearing account for 32 related sub-funds and sub-accounts, each of which receive specific appropriations.

Although a lead agency has not been assigned to oversee and coordinate Proposition 13 activities, individual participating departments are responsible for managing their cash needs and for maintaining records in support of project activities and expenditures.

The Proposition 13 funds allocated to each department are summarized on Schedule 3.

SCOPE AND METHODOLOGY

On November 9, 1999, the Governor directed each department allocated Proposition 12 and 13 funds (as shown on Schedules 1 and 3), “to annually report to the Department of Finance: a list of projects approved, the progress of the project or actual expenditures made, and the amount of funds remaining in each account.” The Governor also directed the Department of Finance to annually audit and report on the expenditure of these funds. In response to this directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of Proposition 12 and 13 expenditures, as of June 30, 2001, and presents its first annual report to the Commission on Building for the 21st Century.

Our scope included an audit of the Proposition 12 and 13 bond controls and transactions for the period July 1, 2000 to June 30, 2001, and a compilation of department-reported project information for the period July 1, 2000 to March 31, 2002, with the objective of determining whether the bond expenditures and encumbrances were accurately reported, and whether the project status was reported in accordance with the Governor’s directive. The methods used and procedures performed by scope area are as follows:

- **We determined whether administering departments had effective control and accountability for bond funds, and whether they had adequate project monitoring processes.** For this area, we interviewed administering departments’ fiscal and program staff, observed operations and activities, reviewed policies and procedures, reviewed contract terms and project scopes, reviewed project files for evidence of periodic monitoring and submission of required deliverables, and tested a sample of bond expenditures for proper authorization and compliance with established procedures and contract terms. Where appropriate, we reviewed and relied on the work of other auditors. In general, we found that bond funds and bond-acquired assets were safeguarded against loss from unauthorized use or disposition, bond transactions were executed in accordance with management’s authorization and recorded properly to permit the preparation of reliable financial reports, and that fiscal/monitoring activities followed sound business practices, and were conducted in accordance with the bond acts and with policies and procedures established in the State Administrative Manual. Isolated control weaknesses are described in the findings and recommendations section of this report.
- **We determined whether bond funds were expended and reported in accordance with the bond acts and State accounting requirements.** To complete this objective, we reviewed the bond acts and applicable laws and regulations, reviewed policies and procedures, interviewed administering departments’ management and staff, reviewed and verified bond allocations and appropriations, verified fund transfers, reconciled accounting records with financial reports, tested a sample of expenditures (support, local assistance, and capital outlay) to supporting documents, reviewed grant agreements and

contracts, and verified the validity of encumbrances and reserves. We inspected acquired land (on a limited basis) and reviewed appraisals, escrow/closing statements, deeds of trust, and the recording of State-owned land in departmental funds/accounts and statewide real property inventories. Where appropriate, we reviewed and relied on the work of other auditors. We found that the bond expenditures, as of June 30, 2001, were accurately accounted and reported in compliance with the bond acts, and in conformity with the accounting practices as prescribed by the State of California. The results of our audit are summarized on Schedules 1 through 4.

As of June 30, 2001, most departments were still in the process of issuing grants to local entities, and very few of the projects had yet been completed. Accordingly, for this first reporting period, all of our audit work was conducted at the participating State departments, and did not extend to field audits of individual grantees/local agencies. In subsequent years, we plan to audit grantees on a risk basis and summarize the results of those audits in our annual report.

- **We determined whether administering departments' self-reported project status appeared complete, consistent, and informative.** In accordance with the Governor's directive, we requested all administering departments to report to us the status of their projects (by bond act item). Although "status" can be inferred from the reported expenditures, for purposes of our review, we defined "status" as the *expected date that the project can be utilized for its intended purpose*. To obtain project completion dates, we distributed surveys, interviewed department staff, reviewed project files, reviewed expenditure details, and reconciled department-reported information with financial reports and other external documentation. Refer to page five for project status. The information was reported to us through March 31, 2002. Because this information is estimated and self-reported, our auditing procedures did not extend to a verification of the expected completion dates, and we make no representations about their accuracy. However, we did review the information for consistency and completeness and followed up with departments to clarify and specify details. We plan to review project completion during subsequent field audits of grantees.

Our review did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Further, we did not assess the reasonableness of the land acquisition costs or the conservation value of the land acquired.

PROJECT OVERVIEW AND STATUS

During this first reporting period, most of the administering departments were still in the planning and development phase of reviewing applications, determining eligibility, identifying and prioritizing projects and grantees, establishing funding mechanisms, determining allocations, preparing and executing contracts, and otherwise developing management processes to administer the bond programs. As of June 30, 2001, most of the departments had incurred initial expenditures for program planning, administration, and project start. However, because most of the started projects were in their early stages and very few had yet been completed, a project status report as of June 30, 2001 would be of limited value. Accordingly, we requested departments to report their projects' status through March 31, 2002, and this information is summarized below.

Due to the large volume of individual projects, no attempt has been made to summarize specific projects at the grant level. However, we have aggregated the projects into major categories as shown in the bond acts, and summarize their status on a consolidated basis. In the bond acts, Proposition 12 funds were allocated by *department*, while Proposition 13 funds were allocated by *specific program* (with one or more participating department). Consequently, there may be differences in the following presentation between the two propositions. For Proposition 13, we have also shown the project status by department where available. Open projects are defined as those projects where funds have been encumbered and/or disbursed to vendors, contractors, grantees, or local agencies. The reported project costs are the maximum amounts allowed by the contract, grant, or encumbrance.

The following is a summary of the major programs as authorized in the bond acts, their allocations, and project status. *The number of open projects, average project costs, and allocations/appropriations, are as of June 30, 2001. The estimated completion dates were reported as of March 31, 2002.*

Proposition 12

(The Planning & Conservation League, PCL Foundation, and departmental websites provided some of the following program information.)

Department of Parks and Recreation: The Department administers the largest and most complex state park system in the world, including hundreds of units, from mountain and desert wilderness to historic structures and urban districts. The department serves several roles under Proposition 12. It operates the State Parks and Recreational System, which receives funding to acquire new parks, restore existing park resources and volunteer facilities, and improve visitor facilities. Additionally, per capita and competitive grants are made to local agencies. Some of the grants are for urban recreation programs, historic preservation, zoos, museums, aquariums, and youth facilities. The Department has been allocated \$1,364,250,000 for these purposes.

There are 68 open projects, averaging \$2.3 million per project. Estimated completion dates range from fiscal years 2000-01 through 2007-08.

California Conservation Corps: The Corps provides assistance to local agencies on a wide variety of conservation projects, including stream and wetlands restoration projects, and other resource projects. The Corps has been allocated \$15 million.

Project funds are disbursed in the form of grants to local conservation corps. There are 43 open projects, averaging \$68,679 per project. Estimated completion dates range from 2000-01 through 2001-02.

Wildlife Conservation Board: The Board acquires wildlife habitats, primarily for later management by the Department of Fish and Game. Much of the Proposition 12 funds will go to the preservation of habitat for endangered plants and animals. Additionally, the Board will use the funds for the acquisition of wetlands, waterfowl habitat, ancient redwoods and oak woodlands, preservation of the Salton Sea, and other wildlife projects. The Board has been allocated \$265.5 million.

Project funds are disbursed in the form of grants to local agencies, or directly to vendors/contractors. There are 49 open projects, averaging \$706,700 per project. Estimated completion dates range from 2000-01 through 2002-03.

California Tahoe Conservancy: The Tahoe Conservancy was established to develop and implement programs, through acquisitions and site improvements, to improve Lake Tahoe's water quality, preserve the region's scenic beauty and recreational opportunities, provide public access, preserve wildlife habitats, and manage and restore lands to protect the natural environment. The Tahoe Conservancy has been allocated \$50 million to continue this work.

Project funds are for the acquisition of land and erosion control. There are three open projects in the amounts of \$235,000, \$837,000 and \$4,177,000. Estimated completion dates range from 2000-01 through 2002-03.

California Coastal Conservancy: The Coastal Conservancy was created to purchase, protect, restore, and enhance coastal resources and access. Proposition 12 finances a wide variety of coastal programs and projects, including projects to protect San Francisco Bay, Santa Monica Bay, Newport Bay, Ballona Wetlands, and the Laguna Coast. Additional programs include coastal protection, salmon protection and restoration, creation of trails along the coast and Guadalupe River, and extension of the San Francisco Bay Ridge Trail. The Coastal Conservancy has been allocated \$250.4 million.

Project funds are disbursed in the form of grants to local or non-profit agencies, or directly to vendors/contractors. There are 126 open projects, averaging \$232,168 per project. Estimated completion dates range from 2000-01 through 2004-05.

Santa Monica Mountains Conservancy: The Santa Monica Mountains Conservancy was established to preserve land in the Santa Monica Mountains of Western Los Angeles and Eastern Ventura counties. The Conservancy works closely with the National Park Service and Department of Parks and Recreation in protecting wildlife habitat and recreation areas. Additionally, the Conservancy has established partnerships with a variety of local agencies to protect unique resources in Los Angeles County, such as the Los Angeles River, Whittier Hills,

and parklands in Ventura County. Proposition 12 provides \$35 million to continue these programs.

Project funds are advanced to the Mountains Recreation Conservation Authority. There are 15 open projects, averaging \$1,065,367 per project. Estimated completion dates range from 2001-02 through 2002-03.

Coachella Valley Mountains Conservancy: The mountains surrounding the Coachella Valley are unique biological, historical, cultural, and recreational resources. They are heavily used by visitors from around the world, and are of great importance to the area's Native Americans. The Conservancy was established to acquire the most important lands threatened by development. Proposition 12 provides \$5 million to continue this program.

Project funds are disbursed either for direct acquisitions by the Conservancy or as local assistance grants to local agencies or nonprofit organizations. There are two open projects in the amounts of \$100,000 and \$114,776, with estimated completion dates during 2001-02.

San Joaquin River Conservancy: Undeveloped land surrounding the San Joaquin River, between Friant Dam and Highway 99 in Fresno and Madera counties, is a unique resource to the fast growing San Joaquin Valley, which suffers from a dearth of protected natural lands. The San Joaquin River Conservancy has been allocated \$15 million to promote land acquisition, habitat preservation and enhancement, and public access and recreation programs.

Public access and recreation project funds are disbursed in the form of grants to local government and nonprofit agencies, or directly to contractors. There are two open projects in the amounts of \$75,000 and \$250,172, with estimated completion dates during 2002-03.

Department of Conservation: The Department manages a number of resource programs, including an agricultural conservation easement program to prevent the non-agricultural development of farmland. These are acquired from willing sellers, who can continue to farm without restriction of agricultural activity. Upon sale of the easement, non-agricultural development is prevented. The Department of Conservation was allocated \$25 million for easement grants.

Project funds are disbursed in the form of grants for the California Farmland Conservancy Program. As of June 30, 2001, there are no open projects to report.

Department of Forestry and Fire Protection: The Department's Urban Forestry Program provides grants to local communities to plant and maintain trees in urban areas. This program improves air quality, makes neighborhoods more attractive and livable, improves property values, and provides habitat for wildlife. To continue these efforts, the Department of Forestry and Fire Protection was allocated \$10 million.

Project funds are disbursed in the form of grants. There are 13 open projects, averaging \$100,000 per project, with estimated completion dates from 2000-01 through 2002-03.

Department of Fish and Game: Under Proposition 12, the Department of Fish and Game was assigned the responsibility of implementing waterfowl habitat improvement projects, and removing non-native vegetation. The Department will also administer lands acquired with these moneys. Proposition 12 provides \$12 million for these purposes.

Project funds are for the development, restoration, and preservation of habitats and wetlands. There are 25 open projects, averaging \$39,075 per project, with estimated completion dates from 2000-01 through 2010-11.

Resources Agency: The California Resources Agency is an integral part of the Governor's cabinet. The Agency oversees a wide variety of departments, boards, and commissions, including all of those listed above, and is also the lead agency for the State's Proposition 12 programs. Although the individual departments manage most programs, a few are directly managed by the Resources Agency. These programs include the preservation and restoration of the Los Angeles, San Gabriel, and Kern Rivers; a project in the Santa Clarita area; and a program for the preservation of lands in the Sierra-Nevada Cascade Mountain Region. Proposition 12 provides \$45.85 million for these purposes.

Project funds are disbursed in the form of grants to local agencies. There are four open projects, averaging \$861,948 per project, with estimated completion dates from 2001-02 through 2004-05.

California Integrated Waste Management Board: The Board's Proposition 12 program includes grants to local agencies to assist them in meeting State and federal accessibility standards at public playgrounds. The local agency guarantees that 50 percent of the grant will be used for the improvement or replacement of playground equipment or facilities through the use of recycled materials. Proposition 12 provides \$7 million for this program.

There are 56 open projects, averaging \$49,491 per project, with estimated completion dates from 2001-02 through 2002-03.

Proposition 13

(The Department of Water Resources and departmental websites provided some of the following program information.)

Safe Drinking Water Program—Department of Health Services

The act provides \$70 million to the Safe Drinking Water State Revolving Fund (Fund 0629), for safe drinking water grants and low-interest loans. Also, \$2 million will be used for technical assistance to disadvantaged communities.

For 2000-01, \$70 million was appropriated; however, as of June 30, 2001, the Department of Health Services did not issue any contracts.

Floodplain Mapping Program—Department of Water Resources and Department of Conservation

The act provides \$2.5 million to the Floodplain Mapping Subaccount (6003), for floodplain mapping, land use planning, and mitigation of flood risks and damages. The Department of Water Resources (DWR) administers this program.

For 2000-01, the Subaccount was appropriated \$2.375 million. There are two open projects in the amounts of \$180,000 and \$1.23 million, with estimated completion dates of 2003-04 and 2002-03, respectively.

The act also provides \$2.5 million to the Agriculture and Open Space Mapping Subaccount (6004), for farmland mapping, open space programs, and protection of agricultural resources. The Department of Conservation administers this program.

For 2000-01, \$500,000 was appropriated. Of this amount, \$150,000 was provided to the USDA Natural Resources Conservation Service under an MOU to complete soil mapping in Butte County and publish four existing soil surveys in digital format. The remainder was used by the Department of Conservation to add new soils information (covering 4.1 million acres) to the Farmland Mapping Program and initiate mapping of long-term agricultural easements.

Flood Protection Corridor Program—Department of Water Resources

The act provides \$70 million to the Flood Protection Corridor Subaccount (6005), for grants to local agencies and nonprofit organizations to establish and manage flood protection corridors, acquire easements, preserve agricultural land, and protect wildlife habitats.

For 2000-01, the Subaccount was appropriated \$37.8 million. There are two open projects for \$107,187 and \$4.75 million, with a June 2005 estimated completion date.

Delta Levee Rehabilitation Program—Department of Water Resources

The act provides \$30 million to the Delta Levee Rehabilitation Subaccount (0409), for local assistance subventions and special flood protection projects on specified Delta islands.

For 2000-01, \$30 million was appropriated. The DWR awarded 132 contracts, averaging \$196,970 per contract, with estimated completion dates from 2001-02 to 2004-05.

Flood Control Subventions Program—Department of Water Resources

The act provides \$45 million to the Flood Control Subventions Subaccount (6006), to pay the State's share of nonfederal subvention costs, on authorized county flood control projects.

For 2000-01, \$42.75 million was appropriated. The DWR awarded 11 contracts, averaging \$3.8 million per contract. Four of the contracts have been completed and the remainder will be completed by 2008-09.

Urban Stream Restoration Program—Department of Water Resources

The act provides \$25 million to the Urban Stream Restoration Subaccount (6007), for grants to local agencies and community conservation corps for stream clearance, flood mitigation, clean-up, and other activities to restore the natural value of streams and prevent flood damage.

For 2000-01, \$2.447 million was appropriated. The DWR awarded 11 contracts, averaging \$181,818 per contract, with estimated completion dates from 2001-02 to 2002-03.

Capital Area Flood Protection Program—Department of Water Resources

The act provides \$20 million to the State Capital Protection Subaccount (6008), for use by the Sacramento Area Flood Control Agency, to pay the State's share of costs for flood management projects authorized by the federal government.

For 2000-01, \$20 million was appropriated. The DWR awarded one contract for \$9.895 million, with estimated completion during 2002-03.

San Lorenzo River Flood Control Program—Department of Water Resources

The act provides \$2 million to the San Lorenzo River Flood Control Subaccount (6009), for use by the City of Santa Cruz, to pay the State's share of the San Lorenzo River flood management project.

For 2000-01, \$1.9 million was appropriated and awarded as one contract, with an estimated completion date of 2002-03.

Yuba Feather Flood Protection Program—Department of Water Resources, State Reclamation Board, and Department of Fish and Game

The act provides \$90 million to the Yuba Feather Flood Protection Subaccount (6010), to be used as follows:

- \$70 million will be used by the DWR or the State Reclamation Board to implement flood management projects.

For 2000-01, \$9.078 million was appropriated. The DWR awarded nine contracts, averaging \$622,000 per contract, with estimated completion dates during 2001-02.

- \$20 million was allocated to the Department of Fish and Game (DFG), which may be used to determine if any flood control project undertaken pursuant to this article would result in a reduction of, or damage to, fish, wildlife, or riparian habitat; and to protect, improve, restore, create, or enhance fish, wildlife, and riparian habitat of a comparable type to that which was reduced or damaged.

For 2000-01, no funds were appropriated.

Arroyo Pasajero Program—Department of Water Resources

The act provides \$5 million to the Arroyo Pasajero Subaccount (6011), to finance projects that improve flood protection for State Highway 269 north of Huron, or to improve flood control for the California Aqueduct around the Arroyo Pasajero crossing.

For 2000-01, \$50,000 was appropriated; however, as of June 30, 2001, no contracts were awarded.

Watershed Program—State Water Resources Control Board

The act provides \$90 million to the Watershed Protection Subaccount (6013), for grants to local agencies and nonprofit organizations to implement watershed plans, reduce flooding, control erosion, improve water quality, improve aquatic and terrestrial habitats, restore groundwater recharge, protect native vegetation and water flows, and to provide matching funds for federal grant programs.

For 2000-01, \$20.321 million was appropriated. The State Water Resources Control Board (SWRCB) awarded two contracts for \$2 million and \$5 million, with estimated completion dates in 2002-03.

Water and Watershed Education Program—Department of Water Resources

The act provides \$8 million to the Water and Watershed Education Subaccount (6014), to be used as follows:

- California State University (CSU), Fresno will use \$3 million to establish the San Joaquin Valley Water Institute.

For 2000-01, funds were appropriated to the DWR and disbursed via a \$2.85 million contract with CSU Fresno. Expected completion is June 2003.

- The DWR will use \$2 million to develop the Delta Science Center.

For 2000-01, funds were appropriated to the DWR and disbursed via a \$1.9 million contract with the Delta Science Center. Expected completion is June 2003.

- The University of California will use \$3 million for a Watershed Science Laboratory.

For 2000-01, no funds were appropriated.

River Protection Program—Resources Agency, Department of Water Resources, State Coastal Conservancy, Department of Parks and Recreation, Santa Monica Mountains Conservancy, and Wildlife Conservation Board

The act provides \$95 million to the River Parkway Subaccount (6015), for the acquisition and restoration of riparian habitat, riverine aquatic habitat, and other lands in close proximity to rivers and streams, and for river and stream trail projects. The Resources Agency will administer most of these funds; however, the DWR will be responsible for distributing \$10 million to the San Joaquin River Conservancy.

The Resources Agency awarded 13 contracts to local agencies and nonprofit organizations, mostly in the Los Angeles area, with an average award of \$1.9 million. In 2000-01, \$25 million was appropriated; however, no funds had been expended. These one-year projects are expected to begin in early 2002 and conclude by May 2003.

For 2000-01, the DWR was appropriated \$17.5 million for contracts to state/local agencies and non-profit organizations, and awarded three such contracts—\$2.5 million, \$5 million, and \$10 million, with estimated completion dates during 2008-09, 2005-06, and 2002-03, respectively. One of the contracts was the \$10 million allocation to the San Joaquin River Conservancy.

The State Coastal Conservancy was appropriated \$21.5 million for fee acquisition and habitat restoration grants to local agencies and nonprofit organizations, and had eight open projects. Two contracts were awarded for approximately \$4.7 million each, with the remaining contracts averaging \$1,800. Expected completion dates range from late 2002 to mid 2003.

The Department of Parks and Recreation was appropriated \$1.5 million; however, as of June 30, 2001, no contracts were issued.

The Santa Monica Mountains Conservancy (SMMC) was appropriated \$5 million, and had one \$5 million land acquisition contract with a nonprofit organization. The project began in June 2000 and the acquisition was completed by January 2002.

The Wildlife Conservation Board (WCB) was appropriated \$14 million for wildlife land and easement acquisition grants to local agencies and nonprofit organizations. The WCB awarded three contracts—\$1.056 million, \$3 million, and \$3.1 million, each lasting about eight months. All projects were completed by January 2002.

Southern California Integrated Watershed Program—State Water Resources Control Board

The act provides \$235 million to the Santa Ana River Watershed Subaccount (6016), to rehabilitate and improve the Santa Ana River watershed.

For 2000-01, \$134.212 million was appropriated. One \$3.7 million contract was awarded, with an estimated completion date of September 2003.

Lake Elsinore and San Jacinto Watershed Program—State Water Resources Control Board

The act provides \$15 million to the Lake Elsinore and San Jacinto Watershed Subaccount (6017), to fund rehabilitation and water quality projects in the Lake Elsinore and San Jacinto Watersheds.

For 2000-01, \$8.076 million was appropriated. One \$1.75 million contract was awarded, with an estimated completion date of June 2003.

Coastal Watershed Salmon Habitat Program—Department of Fish and Game

The act provides \$25 million to the Coastal Watershed Salmon Habitat Subaccount (6018), for direct expenditure and grants to protect, restore, acquire, and enhance salmon habitats.

For 2000-01, \$7.725 million was appropriated and the DFG awarded 53 contracts, averaging \$131,000 per contract. Although ten percent of the projects are close to completion, most are still in the early stages. Contracts have an average two-year duration, beginning in mid-2001 and ending by mid-2003.

Nonpoint Source Pollution Control Program—State Water Resources Control Board

The act provides \$100 million to the Nonpoint Source Pollution Control Subaccount (6019), for grants and low interest loans that protect the beneficial use of water throughout the state, through the control of nonpoint source pollution.

For 2000-01, \$10.354 million was appropriated. The SWRCB awarded four contracts averaging \$326,500 per contract. The estimated completion date is June 2003.

Clean Water Program—State Water Resources Control Board

The Clean Water Program is funded from three subaccounts, as follows:

- The act provides \$30.5 million to the State Revolving Fund Loan Subaccount (6020), for loans pursuant to the Clean Water Act; of which, \$7 million is for the Department of Toxic Substances Control (DTSC) to implement local groundwater remediation projects.

For 2000-01, \$7.062 million was appropriated and payments were made on contracts; however, this program is funded by various sources and, except as noted, no one contract is attributable solely to Proposition 13 funds. There was one \$81,000 interagency agreement between the SWRCB and the DTSC for the above-mentioned groundwater project, that was attributable to Proposition 13 funds.

- The act provides \$34 million to the Small Communities Grant Subaccount (0418), for water treatment construction grants to small communities.

For 2000-01, \$15.753 million was appropriated. The SWRCB awarded 21 contracts, averaging \$477,914, with 10 contracts completed in 2000-01. Expected completion dates for the remainder range from 2001-02 to 2004-05.

- The act provides \$35.5 million to the Wastewater Construction Grant Subaccount (6021), for water treatment construction grants to specified cities.

For 2000-01, \$30.021 million was appropriated. The SWRCB awarded one contract for \$11.2 million, with an estimated completion date of August 2003.

Water Recycling Program—State Water Resources Control Board

The act provides \$40 million to the Water Recycling Subaccount (0419), for water recycling loans and grants to local agencies.

For 2000-01, \$25 million was appropriated; however, as of June 30, 2001, no contracts were issued.

Coastal Nonpoint Source Control Program—State Water Resources Control Board

The act provides \$90 million to the Coastal Nonpoint Source Control Subaccount (6022), for projects that protect the water quality and environment of coastal waters, estuaries, bays, and groundwater resources. Funds are disbursed in the form of grants and loans.

For 2000-01, \$10.313 million was appropriated. The SWRCB awarded two contracts—\$3 million and \$4 million, with estimated completion dates during 2002-03.

Seawater Intrusion Control—State Water Resources Control Board

The act provides \$25 million to the Seawater Intrusion Control Subaccount (0424), for local agency grants and loans to carry out seawater intrusion control projects.

For 2000-01, no funds were appropriated.

Water Conservation Programs—Department of Water Resources

The act provides \$155 million to the Water Conservation Account (6023), for the following uses:
Agricultural Water Conservation Program—\$35 million for loans to local agencies for the acquisition and construction of agricultural water conservation projects, and for financing feasibility studies.

Groundwater Recharge Facilities Program—\$30 million for grants and loans to fund projects in over-drafted groundwater basins, projects of critical need, projects with demonstrated feasibility, and projects in areas with groundwater management plans.

Infrastructure Rehabilitation Program—\$60 million for grants to local agencies in economically disadvantaged areas, with service connections that exceed 200 but are not greater than 16,000.

Urban Water Conservation Program—\$30 million for grants and loans to local agencies for urban water conservation projects.

For 2000-01, \$41.191 million was appropriated. The DWR awarded 33 contracts, averaging \$477,893 per contract. All contracts began in June 2001 and will end by June 2003.

Groundwater Storage Program—Department of Water Resources

The act provides \$200 million to the Conjunctive Use Subaccount (6025), for grants to local agencies for feasibility studies, project design, and construction of facilities for conjunctive use projects.

For 2000-01, \$9.5 million was appropriated. The DWR awarded nine contracts, averaging \$1 million per contract. All contracts began in June 2001 and will end by June 2003.

Bay-Delta Multipurpose Water Management Program—Department of Water Resources

The act provides \$250 million to the Bay-Delta Multipurpose Water Management Subaccount (6026), to fund certain projects identified in the CALFED final environmental impact statement/ environmental impact report on the Bay-Delta Program.

For 2000-01, no funds were appropriated.

Interim Water Reliable Supply and Water Quality Infrastructure and Management Program—Department of Water Resources

The act provides \$180 million to the Interim Water Reliable Supply and Water Quality Infrastructure and Management Subaccount (6027), to fund grants and loans to local agencies located in the Delta export service areas, for programs or projects that can be completed not later than March 8, 2009. This program is aimed at avoiding urgent water supply and water quality problems in the interim, before the CALFED program is finalized and implemented.

For 2000-01, \$161.544 million was appropriated. The DWR awarded 13 contracts, averaging \$12.4 million per contract. All contracts began between late 2000 and mid 2001, and have a completion date of March 2009.

REVIEW OF BOND EXPENDITURES

The information presented on the accompanying schedules, as of June 30, 2001, was prepared from the accounts and financial transactions of the participating departments, and in accordance with the modified accrual basis of accounting. This method follows the statutory accounting guidelines prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, revenues are recorded when they become measurable and available, and expenditures are recorded at the time the corresponding liability is incurred. We audited the actual financial information for accuracy, reasonableness, classification, and presentation, and found no material errors, exceptions, or misstatements.

Proposition 12
 Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Agency
 For the Year Ended June 30, 2001

Schedule 1

Agency	Bond Act Section	Allocation ^{4,5} A	Appropriation B	Expenditures C	Encumbrances ² D	Reserve for Commitments ¹ E	Remaining Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance ^{4,5} A-B	Number of Projects
	5096.310								
Department of Parks and Recreation	a - j, l, y	\$1,364,250,000	\$ 743,461,000	\$ 96,348,250	\$64,913,006		\$582,199,744	\$620,789,000	68
Wildlife Conservation Board	m	265,500,000	254,478,150	28,270,271	14,647,273		211,560,606	11,021,850	49
Santa Monica Mountains Conservancy	p	35,000,000	19,000,000	15,200,500	780,000		3,019,500	16,000,000	15
State Coastal Conservancy	o, w	250,400,000	165,427,000 ³	12,278,918 ³	17,274,283		135,873,799	84,973,000	126
California Tahoe Conservancy	n	50,000,000	6,480,000	4,496,785	872,767		1,110,448	43,520,000	3
California Conservation Corps	k, s	15,000,000	3,000,000	975,263	1,977,931		46,806	12,000,000	43
Resources Agency	z	45,850,000	41,549,611	914,361	2,533,431		38,101,819	4,300,389	4
Department of Fish and Game	v	12,000,000	1,457,683	273,359	703,506		480,818	10,542,317	25
California Integrated Waste Management Board	x	7,000,000	2,812,192	228,369	2,543,100		40,723	4,187,808	56
Coachella Valley Mountains Conservancy	q	5,000,000	4,854,000	214,776	0		4,639,224	146,000	2
Department of Conservation	t	25,000,000	5,499,575	141,896	5,763		5,351,916	19,500,425	0
San Joaquin River Conservancy	r	15,000,000	14,562,000	0	325,172		14,236,828	438,000	2
Department of Forestry and Fire Protection	u	10,000,000	2,842,174	82,048	1,116,653	\$200,000	1,443,473	7,157,826	13
Sub Totals		2,100,000,000	1,265,423,385	159,424,796	107,692,885	200,000	998,105,704	834,576,615	406
Net Set Asides and Future Year Obligations ^{4,5}		(175,200,000)						(175,200,000)	
Totals		\$1,924,800,000	\$1,265,423,385	\$159,424,796	\$107,692,885	\$200,000	\$998,105,704	\$659,376,615	406

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.
 2. Encumbrances are shown net of any adjustments.
 3. Amounts include \$300,000 transferred to support appropriation.
 4. Management has estimated and will retain \$175,200,000 for bond issuance and program delivery costs during the life of the program.
 5. Balances were as of June 30, 2001, and have not been reduced to reflect appropriations in subsequent budget acts. In addition, balances by allocation have also not be adjusted to account for set asides and future year obligations; these amounts are shown in aggregate at the bottom of the schedule.

Proposition 12
Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Bond Act Section
For the Year Ended June 30, 2001

Schedule 2

Bond Act Section	Purpose	Allocation ^{4, 5} A	Appropriation B	Expenditures C	Encumbrances ² D	Reserve for Commitments ¹ E	Remaining Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance ^{1, 5} A-B
5096.310								
a	General state parks programs	\$ 502,750,000	\$ 231,118,000	\$63,642,782	\$18,281,801		\$149,193,417	\$271,632,000
b	Stewardship projects relating to state parks	18,000,000	94,000	0	0		94,000	17,906,000
c	Volunteer participation in state parks	4,000,000	31,000	0	0		31,000	3,969,000
d	Grants to local agencies administering units of state park system	20,000,000	38,000	0	0		38,000	19,962,000
e	Competitive grants to local agencies - historical resources	10,000,000	125,000	55,781	636		68,583	9,875,000
f	Per-capita grants for local parks	388,000,000	370,259,000	10,142	114		370,248,744	17,741,000
g	Grants to local agencies pursuant to the Roberti-Z'berg Act	200,000,000	3,380,000	0	0		3,380,000	196,620,000
h	Grants to local agencies for riparian habitat	10,000,000	19,000	0	0		19,000	9,981,000
i	Grants to local agencies for nonmotorized trails	10,000,000	9,466,000	28,500	516,500		8,921,000	534,000
j	Grants that benefit youth projects	100,000,000	47,422,000	4,818,445	15,579,555		27,024,000	52,578,000
k	Resource conservation projects	2,500,000	470,000	560,405	0		(90,405)	2,030,000
l	Grants for urban recreation and regional youth sports	86,500,000	67,312,000	27,792,600	17,010,400		22,509,000	19,188,000
m	Resource conservation projects	265,500,000	254,478,150	28,270,271	14,647,273		211,560,606	11,021,850
n	Lake Tahoe conservation programs	50,000,000	6,480,000	4,496,785	872,767		1,110,448	43,520,000
o	Acquisition and restoration of coastal lands	220,400,000	140,922,000 ³	10,933,727 ³	14,836,441		115,151,832	79,478,000
p	Capital outlay and grants for SMMC and administration	35,000,000	19,000,000	15,200,500	780,000		3,019,500	16,000,000
q	Acquisition, development and protection of land	5,000,000	4,854,000	214,776	0		4,639,224	146,000
r	Acquisition, development and protection of land	15,000,000	14,562,000	0	325,172		14,236,828	438,000
s	Grants for local conservation corps	12,500,000	2,530,000	414,858	1,977,931		137,211	9,970,000
t	Grants for the Agricultural Land Stewardship Program	25,000,000	5,499,575	141,896	5,763		5,351,916	19,500,425
u	Grants for purchase and planting of trees	10,000,000	2,842,174	82,048	1,116,653	\$200,000	1,443,473	7,157,826
v	Development, restoration and preservation of habitat and wetlands	12,000,000	1,457,683	273,359	703,506		480,818	10,542,317
w	Projects and grants relating to S.F. Bay Area conservation	30,000,000	24,505,000	1,345,191	2,437,842		20,721,967	5,495,000
x	Grants to local agencies for public playgrounds	7,000,000	2,812,192	228,369	2,543,100		40,723	4,187,808
y	Rehabilitation or enhancement to a city park in Northern CA	15,000,000	14,197,000	0	13,524,000		673,000	803,000
z	River, watershed, parkway, and recreational projects	45,850,000	41,549,611	914,361	2,533,431		38,101,819	4,300,389
	Subtotals	2,100,000,000	1,265,423,385	159,424,796	107,692,885	200,000	998,105,704	834,576,615
	Net Set Asides and Future Year Obligations ^{4, 5}	(175,200,000)						(175,200,000)
	Totals	\$1,924,800,000	\$1,265,423,385	\$159,424,796	\$107,692,885	\$200,000	\$998,105,704	\$659,376,615

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.

2. Encumbrances are shown net of any adjustments.

3. Amounts include \$300,000 transferred to support appropriation.

4. Management has estimated and will retain \$175,200,000 for bond issuance and program delivery costs during the life of the program.

5. Balances were as of June 30, 2001, and have not been reduced to reflect appropriations in subsequent budget acts. In addition, balances by allocation have also not be adjusted to account for set asides and future year obligations; these amounts are shown in aggregate at the bottom of the schedule.

Proposition 13
Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Agency
For the Year Ended June 30, 2001

Schedule 3

Agency	Bond Act Section	Allocation ⁵ A	Appropriation B	Expenditures ² C	Encumbrances ² D	Reserve for Commitments ¹ E	Remaining Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance ⁵ A-B	Number of Projects
Department of Water Resources	79045, 79033(a), 79035(a), 79055, 79060, 79065.2(a), 79067(a), 79068.2, 79069.6, 79090, 79100(a), 79152, 79172, 79194, 79205.4(a)	\$1,154,500,000	\$380,885,000	\$57,309,420	\$194,875,551	\$27,836,048	\$100,863,981	\$706,615,000 ⁴	229
State Water Resources Control Board	79121(b), 79136, 79149.2(a), 79075, 79104.22(a), 79112, 79104.100(a), 79121(a), 79121(c), 79148.4	695,000,000	261,112,000	12,784,205	34,580,356	1,306,000	212,441,439	433,888,000	32
Department of Conservation	79033.2(a)	2,500,000	500,000	0	0		500,000	2,000,000	0
Resources Agency	79100(a)	⁴	25,000,000	0	0	25,000,000	0	0	13
Department of Parks and Recreation	79100(a)	⁴	1,500,000	0	0		1,500,000	0	0
Wildlife Conservation Board	79100(a)	⁴	14,000,000	0	6,100,000	1,055,800	6,844,200	0	3
State Coastal Conservancy	79100(a)	⁴	21,500,000	4,708,440	5,062,478		11,729,082	0	8
Santa Monica Mountains Conservancy	79100(a)	⁴	5,000,000	4,985,000	0		15,000	0	1
Department of Fish and Game	79104.200, 79068.14	45,000,000	7,725,000	182,502	6,858,110		684,388	37,275,000	53
University of California	79094	3,000,000	0	0	0		0	3,000,000	0
Department of Health Services	79021	70,000,000	70,000,000	0	0		70,000,000	0	0
Subtotals		1,970,000,000	787,222,000	79,969,567	247,476,495	55,197,848	404,578,090	1,182,778,000	339
Net Bond Issuance Costs ^{3, 5}				1,410,675			(1,410,675)		
Totals		\$1,970,000,000	\$787,222,000	\$81,380,242	\$247,476,495	\$55,197,848	\$403,167,415	\$1,182,778,000	339

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.
2. Expenditures and encumbrances are shown net of any adjustments.
3. Net costs associated with bond issuance.
4. Specific allocation amounts were not identified for these departments. The amounts are contained in DWR's allocation, and the departments' appropriations are deducted from DWR's unappropriated allocation balance.
5. Balances were as of June 30, 2001, and have not been reduced to reflect appropriations in subsequent budget acts.

Proposition 13
Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Bond Act Section
For the Year Ended June 30, 2001

Schedule 4

Bond Act Section	Fund Number	Fund Name	Allocation ⁴ A	Appropriation B	Expenditures ² C	Encumbrances ² D	Reserve for Commitments ¹ E	Remaining Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance ⁴ A-B	Number of Projects
79021	0629	Safe Drinking Water State Revolving Fund	\$ 70,000,000	\$ 70,000,000	\$ 0	\$ 0	\$ 0	\$ 70,000,000	\$ 0	0
79033(a)	6003	Floodplain Mapping Subaccount	2,500,000	2,375,000	195,922	1,230,000	180,000	769,078	125,000	2
79033.2(a)	6004	Agriculture and Open Space Mapping Subaccount	2,500,000	500,000	0	0		500,000	2,000,000	0
79035(a)	6005	Flood Protection Corridor Subaccount	70,000,000	37,800,000	181,882	4,643,845	107,187	32,867,086	32,200,000	2
79045	0409	Delta Levee Rehabilitation Subaccount	30,000,000	30,000,000	9,081,624	16,978,000		3,940,376	0	132
79055	6006	Flood Control Subventions Subaccount	45,000,000	42,750,000	7,013,502	35,736,000		498	2,250,000	11
79060	6007	Urban Stream Restoration Subaccount	25,000,000	2,447,000	318,936	950,139	1,050,861	127,064	22,553,000	11
79065.2(a)	6008	State Capital Protection Subaccount	20,000,000	20,000,000	1,650,468	1,260,000		17,089,532	0	1
79067(a)	6009	San Lorenzo River Flood Control Subaccount	2,000,000	1,900,000	1,707,302	192,698		0	100,000	1
79068.2	6010	Yuba Feather Flood Protection Subaccount	90,000,000	9,078,000	2,294,566	3,671,000		3,112,434	80,922,000	9
79069.6	6011	Arroyo Pasajero Watershed Subaccount	5,000,000	50,000	0	0		50,000	4,950,000	0
79075	6013	Watershed Protection Subaccount	90,000,000	20,321,000	1,648,470	5,617,738		13,054,792	69,679,000	2
79090	6014	Water and Watershed Education Subaccount	8,000,000	4,750,000	0	2,850,000	1,900,000	0	3,250,000	2
79100(a)	6015	River Protection Subaccount	95,000,000	84,500,000	9,828,440	28,527,478	26,055,800	20,088,282	10,500,000	28
79104.100(a)	6017	Lake Elsinore and San Jacinto Watershed Subaccount	15,000,000	8,076,000	26,418	1,751,239		6,298,343	6,924,000	1
79104.200	6018	Coastal Watershed Salmon Habitat Subaccount	25,000,000	7,725,000	182,502	6,858,110		684,388	17,275,000	53
79104.22(a)	6016	Santa Ana River Watershed Subaccount	235,000,000	134,212,000	709,485	3,540,238		129,962,277	100,788,000	1
79112	6019	Nonpoint Source Pollution Control Subaccount	100,000,000	10,354,000	173,180	8,141	1,306,000	8,866,679	89,646,000	4
79121(a)	6020	State Revolving Fund Loan Subaccount	30,500,000	7,062,000	6,558,462	20,250		483,288	23,438,000	0
79121(b)	0418	Small Communities Grant Subaccount	34,000,000	15,753,000	2,824,423	7,575,563		5,353,014	18,247,000	21
79121(c)	6021	Wastewater Construction Grant Subaccount	35,500,000	30,021,000	640,599	9,057,712		20,322,689	5,479,000	1
79136	0419	Water Recycling Subaccount	40,000,000	25,000,000	0	0		25,000,000	15,000,000	0
79148.4	6022	Coastal Nonpoint Source Control Subaccount	90,000,000	10,313,000	203,168	7,009,475		3,100,357	79,687,000	2
79149.2(a)	0424	Seawater Intrusion Control Subaccount	25,000,000	0	0	0		0	25,000,000	0
79152	6023	Water Conservation Account	155,000,000	41,191,000	305,514	1,000	10,594,000	30,290,486	113,809,000	33
79172	6025	Conjunctive Use Subaccount	200,000,000	9,500,000	376,289	0	9,004,000	119,711	190,500,000	9
79194	6026	Bay-Delta Multipurpose Water Management Subaccount	250,000,000	0	0	0		0	250,000,000	0
79205.4(a)	6027	Interim Water Supply and Water Quality Infrastructure and Management Subaccount	180,000,000	161,544,000	34,048,415	109,997,869	5,000,000	12,497,716	18,456,000	13
Subtotals			1,970,000,000	787,222,000	79,969,567	247,476,495	55,197,848	404,578,090	1,182,778,000	339
Net Bond Issuance Costs ^{3, 4}					1,410,675			(1,410,675)		
Totals			\$1,970,000,000	\$787,222,000	\$81,380,242	\$247,476,495	\$55,197,848	\$403,167,415	\$1,182,778,000	339

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.

2. Expenditures and encumbrances are shown net of any adjustments.

3. Net costs associated with bond issuance.

4. Balances were as of June 30, 2001, and have not been reduced to reflect appropriations in subsequent budget acts.

FINDINGS AND RECOMMENDATIONS

In planning and performing our audit of Proposition 12 and 13 expenditures, we reviewed the applicable internal control of departments and agencies administering bond funds, to determine areas of risk and to identify where the control and accountability for bond funds could be improved. In general, we found that bond funds and bond-acquired assets were adequately accounted, safeguarded, and reported in compliance with the bond acts and State fiscal requirements. However, we also noted a number of conditions that, although primarily limited to a few departments, require corrective action to minimize the risk of loss. The following conditions illustrate the importance of designing controls that enhance departments' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We also communicated these issues to departments via separate management letters.

Project Monitoring

1. Project Status Was Not Readily Available

In accordance with the Governor's directive, we requested each department appropriated Proposition 12 or 13 funding to report to us a list of approved projects, project status (expected completion dates), actual expenditures, and the funds remaining in each bond category. During our review of project status, it became apparent that some departments were unprepared to report the overall status of their projects/programs. Departments generally take a decentralized approach, with project management assigned to a number of different managers, some from different divisions, branches, and units, depending on the particular program. While this approach is effective and necessary for day-to-day operations, it does not provide executive management with essential, centralized information for long-term administration of their overall bond programs. Although we were able to track down most of the required information, departments could do a better job of periodically surveying all of their project managers and preparing a consolidated status report for department management and external users. In a few instances, it was necessary for us to reconstruct the completion dates from a detailed review of project files and extensive interviews with project managers. In one case, project managers did not know the status of their own projects. We recommend that departments establish and maintain centralized reporting systems to monitor and control bond-funded projects, and to readily assess project status.

Internal Accounting and Administrative Controls

Contracting Procedures Could Be Improved

2. Grant/Contract Language is Vague With Respect to Performance Period, Scope of Work, and Budget: Grants and contracts are not always prepared in accordance with State Contracting Manual requirements. We found that several grants/contracts lacked specific effective dates or performance periods, lacked an adequate scope of work (some scopes were

vague, consisted of only one or two sentences, or made reference to another document that was also unspecific), or lacked an expenditure budget. Without specific performance periods and project scopes, management may be unable to ensure that grantees/contractors complete projects timely and effectively. Further, expenditure budgets allow management to monitor project progress and costs. We recommend that all grants and contracts include: (1) a specific term for the performance or completion of the project (dates or length of time); (2) a clear description of the project scope, including the work, service, or product to be performed, rendered, or provided (and provisions for periodic status reports thereon); and (3) expenditure budgets, including authorized costs by major expenditure category.

3. Grant/Contract Payment Documentation Could Be Improved: Not all departments consistently maintained the required progress reports and deliverables on file, or copies of invoices or other documentation of grant/contract payments. Further, we noted that some payments were made without the documented approval of the contract manager or accounting office's verification of a valid grant/contract. We recommend that departments review grants/contracts for compliance with progress report requirements, maintain all relevant payment and monitoring documents in contract files, and ensure that invoices are approved prior to payment. Further, accounting offices should maintain copies of all executed grants/contracts for review and verification prior to scheduling payments.

4. Property is Not Adequately Accounted or Controlled

We identified a land acquisition totaling \$16 million (including \$2.9 million in bond funds) that was not posted to the department's general or subsidiary ledger, as of June 30, 2001, or reported in its fiscal year 2000-01 financial statements. Further, the subsidiary real property ledger had not been updated since June 30, 2000, and there was a \$1.8 million unreconciled difference between the real property ledger and the CALSTARS general ledger, as of June 30, 2001. Another department had not recorded \$20.3 million of its bond-funded property in the general ledger. Although these appeared to be isolated problems, we recommend that all departments review their procedures and ensure that they: (1) post all land acquisitions timely to the general ledger and subsidiary real property ledger; (2) report all land acquisitions in the year-end financial reports; (3) reconcile, either monthly or quarterly, the property transactions with the general ledger; and (4) reconcile the general ledger and subsidiary property ledger monthly. Also, annually reconcile real property ledger balances with amounts reported to the Department of General Services.

Fiscal Activities are Not Properly Authorized, Accounted, or Monitored

5. Non-Accrual of PMIA Interest Expense: \$20 million in loan interest was not accrued in five departments' financial statements. These departments appeared unfamiliar with the interest accrual requirements. We recommend that departments review their accrual procedures and properly report interest expense.

6. Encumbrances Are Not Adequately Controlled: In some departments, encumbrances are not properly recorded in the general ledger, and are not reviewed at year-end for validity. We found instances of duplicate, overstated, and invalid encumbrances (funds encumbered without valid, executed contracts). Without adequate encumbrance control, bond funds may be over-committed and financial statements may be materially misstated. We recommend that departments review all encumbrances periodically and at year-end for validity and compliance with State guidelines.

7. Accounts Receivable Controls Could Be Improved: In one department, we found that receivables were not recorded in the general ledger, subsidiary billing systems contained outdated information, and reconciliations were not performed. These controls are critical to the effective administration of loan programs. We recommend that: (1) all receivables be recorded in the general ledger, (2) subsidiary ledgers be reviewed for accuracy, and (3) subsidiary and general ledgers be reconciled monthly.

8. Cash Receipt Procedures are Not Adequate: Specifically, one department's headquarters collections are decentralized (causing incompatible collection duties in certain programs), checks are not promptly endorsed, and deposits and remittances are not timely. These controls are also critical to the administration of loan programs. We recommend that: (1) collections be centralized within the accounting unit, (2) checks be promptly endorsed upon receipt, and (3) deposits and remittances be made timely.

9. Monthly Reconciliations are Not Prepared or Reviewed Timely: Not all departments review and reconcile their bond accounts with the State Controller's records timely. Not reconciling agency accounts regularly with the State Controller may lead to undetected, uncorrected errors, and materially misstated financial statements. We recommend that departments prepare, review, and approve all fund reconciliations within 30 days of the preceding month.

Inadequate Separation of Duties and Funds Oversight

10. Inadequate Separation of Duties: Some programs lack adequate separation of duties where the program manager oversees and monitors all fiscal and operational functions. Specifically, the program manager monitors the agreements, prepares purchase requisitions, reviews and approves claims, and receives warrants from the State Controller's Office. The handling of warrants is incompatible with the managers' other duties. We recommend that program managers separate warrant handling from other duties, and that warrants be mailed directly from the State Controller's Office.

Additionally, the program manager has sole discretion on the amount of bond funds to be disbursed to local governments, and the allocations are not reviewed and approved by upper management. In addition, the program manager does not maintain an adequate audit trail for the calculations and methodologies used in determining the allocations. There does not appear to be a formal, documented, department-authorized allocation process. We recommend that the department develop a formal allocation process and require upper management to review and approve the allocations. Maintain documentation of the allocation methodologies and calculations.

CONCLUSION

We respectfully submit this report on our review of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, as of June 30, 2001, to the Commission on Building for the 21st Century.

The control and accountability issues discussed in the Findings and Recommendations present opportunities for departments to correct identified weaknesses and improve operations. We believe the internal control would be strengthened if departments implement our recommendations. The internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected.

We conducted our review in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, based on fieldwork performed from July 1, 2001 to May 31, 2002. We limited our review to those areas specified in the scope section of this report.



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

May 31, 2002



July 26, 2002

Mr. Samuel E. Hull, Chief
Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814

Re: Response to Draft Report – Review of Bond Funds

Dear Mr. Hull:

Thank you for the opportunity to respond to the draft audit report of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds. We appreciate the effort of the auditors to work with the departments to improve control procedures and generally “fine tune” the financial and compliance activities within the departments.

We are pleased that overall, the audit concluded that the bonds funds were accurately accounted and reported in compliance with the bond acts, and in conformity with the accounting practices as prescribed by the State of California and that, with few exceptions, bond-acquired assets were adequately accounted, safeguarded, and reported in compliance with all requirements.

As lead agency for Proposition 12, we are providing the following responses to the Findings and Recommendations in the report:

1. Project Status Was Not Readily Available

Recommendation: Departments should establish and maintain centralized reporting systems to monitor and control bond-funded projects, and to readily assess project status.

Response: As the report accurately notes, departments generally take a decentralized approach, with project management assigned to a number of different managers, branches, divisions, and units, depending on the particular program. Generally, each program maintains its project status information and, as stated in the report, the decentralized approach “. . . is effective and necessary for day-to-day operations”. It also reflects the complexity and breath of programs receiving appropriations. Departments have indicated that due to the short response time provided for this audit report, they have not been able to fully examine this recommendation and determine whether it can be

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accomplished in a cost effective manner. Departments will be requested to further consider this recommendation and report back to the Agency whether establishing centralized project status reporting would be cost effective and beneficial.

2. Grant/Contract Language is Vague with Respect to Performance Period, Scope of Work, and Budget

Recommendation: All grants and contracts should include (1) a specific term for the performance or completion of the project (dates or length of time); (2) a clear description of the project scope, including the work, service, or product to be performed, rendered, or provided (and provisions for periodic status reports thereon); and (3) expenditure budgets, including authorized costs by major expenditure category.

Response: Departments will be directed to review their grant/contract language and ensure that all elements are included in their documents.

3. Grant/Contract Payment Documentation Could Be Improved

Recommendation: Departments should review grants/contracts for compliance with progress report requirements, maintain all relevant payment and monitoring documents in contract files, and ensure that invoices are approved prior to payment. Further, accounting offices should maintain copies of all executed grants/contracts for review and verification prior to scheduling payments.

Response: Departments will be directed to ensure they are in compliance with this audit recommendation.

4. Property is Not Adequately Accounted or Controlled

Recommendation: All departments review their procedures and ensure that they: (1) post all land acquisitions timely to the general ledger and subsidiary real property ledger; (2) report all land acquisitions in the year-end financial reports; (3) reconcile, either monthly or quarterly, the property transactions with the general ledger; and (4) reconcile the general ledger and subsidiary property ledger monthly. Also, annually reconcile real property ledger balances with amounts reported to the Department of General Services.

Response: Departments will be directed to review their procedures and reconcile their records in accordance with the recommendation.

5. Non-Accrual of PMIA Interest Expense

Recommendation: Departments review their accrual procedures and properly report interest expense.

Response: Departments who have not properly reported the PMIA interest accrual will be directed to review their accrual procedures and report any interest expense accruals on year-end statements.

6. Encumbrances are Not Adequately Controlled

Recommendation: Departments review all encumbrances periodically and at year-end for validity and compliance with State guidelines.

Response: Departments will be directed to review all encumbrances in accordance with the audit recommendation.

7. Accounts Received Controls Could Be Improved

Not applicable for Proposition 12

8. Cash Receipt Procedures are Not Adequate

Not applicable for Proposition 12

9. Monthly Reconciliations are Not Prepared or Review Timely

Recommendation: Departments prepare, review, and approve all fund reconciliations within 30 days of the preceding month.

Response: Departments will be directed to comply with this audit recommendation.

Mr. Samuel E. Hull, Chief
Office of State Audits and Evaluations
July 26, 2002
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10. Inadequate Separation of Duties

Recommendation: Program managers separate warrant handling from other duties and that warrants be mailed directly from the State Controller's Office. Develop a formal allocation process and require upper management to review and approve the allocations. Maintain documentation of the allocation methodologies and calculations.

Response: We understand this finding applied to one department and steps have already been taken to implement this recommendation.

Additionally, attached are additional comments from the Departments of Parks and Recreation and Conservation recommending changes to improve the accuracy of the information in the audit report.

Should you have any questions, please contact Elaine Berghausen, Deputy Assistant Secretary Bonds and Grants at (916) 653-5656.

Yours sincerely,



Mary D. Nichols
Secretary for Resources

Enclosures

CC:

H. West Pratt, Director
California Conservation Corps

Darryl W. Young, Director
Department of Conservation

Robert C. Hight, Director
Department of Fish and Game

Andrea Tuttle, Director
Department of Forestry & Fire Protection

Ruth Coleman, Acting Director
Department of Parks & Recreation

Tom Hannigan, Director
Department of Water Resources